

CORRECTED FISCAL NOTE

SB 2081 - HB 2215

February 17, 2004

SUMMARY OF BILL: Requires that all nursing homes have fire suppression sprinkler systems and one-hour capacity fire doors for all resident rooms by July 1, 2005.

ESTIMATED FISCAL IMPACT:

On February 3, we issued a fiscal note on this bill, which indicated that:

The impact of this bill is a one-time increase in state expenditures of \$97,000 and a one-time increase in state revenues exceeding \$100,000 in FY05. The impact included an estimated increase in state expenditures of \$547,900 and an increase in federal expenditures of \$961,700 in FY06 continuing for a 25-year period of amortized cost to TennCare.

Based on additional information provided to us, the estimated fiscal impact of this bill is:

(Corrected Fiscal Note)

Increase State Expenditures - \$97,000 One Time FY05

Increase State Revenues - Exceeds \$100,000 One-Time FY05

Increase State Expenditures - \$479,100 FY06

Other Fiscal Impact - Increase Federal Expenditures \$851,700 FY06

For Information Purposes - FY05 costs represent Department of Health administrative expense to review plans. FY06 costs represent TennCare expense for the first year amortization of the cost for sprinkler systems reimbursed over 25 years and the first year amortization of the cost for fire doors reimbursed over 15 years. The total impact to the state over the 25-year period is \$24,149,000 (\$8,694,000 state and \$15,455,000 federal).

Estimate assumes:

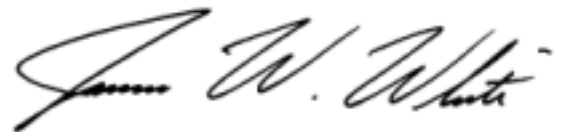
- A need for two engineer positions and related expenses in FY05 in the Department of Health, Bureau for Licensing Health Care Facilities, to review facility plans for construction of fire doors and sprinkler systems. The department will collect fees for plan reviews.

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- The bill will affect 83 nursing homes that currently either do not have a sprinkler system or only a partial system. The requirement for one-hour fire doors will be needed for approximately 19,000 rooms in all nursing homes.
- The cost of installation of sprinkler systems is dependent on the type and size of the building and the current alarm system. Total cost also depends on the expense of hookup to a local water utility or to build a water storage system when local system pressure is inadequate.
- The cost of implementing a sprinkler system is approximately \$7 per square foot for 2.1 million square feet in all facilities without sprinkler systems.
- Constructing one-hour fire doors will require replacement of approximately 19,000 doors at \$1,000 per door.
- TennCare reimbursement will pay approximately 72% of all costs representing the share of Medicaid reimbursement in all nursing homes.
- According to the Comptroller of the Treasury, federal Medicaid rules currently require that capital costs be amortized over a 25-year period for sprinkler systems and 15 years for fire doors.
- Currently, TennCare reimburses nursing homes subject to a maximum rate on facility expenditures. Approximately 50% of all nursing homes are above the cap and do not receive full reimbursement. TennCare will change the state plan to reimburse 100% of the capital costs required by this bill even for facilities above the cap. Such a change is subject to approval by the Center for Medicare and Medicaid Services.
- Reimbursement for nursing homes is based upon audited expenditures from the prior year. Reimbursement for the construction costs required by this bill will begin in FY06 based upon expenditures for FY05.
- The total impact to the nursing home industry is estimated at \$33,541,000.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director